



To: Members, Executive Committee
From: Julie P. Magee, Treasurer
Date: July 1, 2012
Subject: The FY 2013 Budget

I. Commission Budget Process

Each year at a meeting or teleconference held in the spring, the Executive Committee approves the fee levels for major programs:

- Membership assessments for Compact Members and Sovereignty Members,
- Audit reimbursements for Audit Program States, and
- Nexus fees for National Nexus Program states.

This year the Executive Committee at its May 10 meeting in Washington, DC also reviewed and approved the expenditures budget for FY 2013.

The entire budget for FY 2013 is now being presented for the ratification by the Commission at its annual meeting in Grand Rapids, Michigan.

II. The FY 2013 Budget – Revenue Recap

Fee	FY 2013 Amount	Requested Change from FY 2012 (as compared to the final FY 2012 fee levels)
Membership	\$1,790,275	0.0% (calculated on total assessments)
Audit	\$4,267,240	0.0% (calculated on the base audit fee)
Nexus	\$817,845	0.0 % (calculated on the total Nexus fees)
TOTAL	\$6,875,360	

Note that an individual state's membership assessment and nexus fees may change for FY13 versus FY12 due to the apportionment of the overall fees based on tax revenues, which change each year.

An addendum providing details of the Commission's fee structure is attached.

Issues or comments affecting fee levels:

- **General Operations Support Fee**

This is the “20%” fee that is added to the Audit Program Fee and/or Nexus Program of states which are neither a Compact nor Sovereignty member. This amount is assessed on non-Compact and non-Sovereignty members to support the general operations related to support of the respective programs. As such, this amount is transferred from either the Audit Program or the Nexus Program to support the general operations of the Commission. For FY 2013 the amount of general operations support fees are \$140,616 from the Audit Program and \$59,046 from the Nexus Program. These fees help mitigate the need for additional increases in the total membership fees.

- **South Carolina’s Participation in the Audit Program**

FY 2011 was the first year of the three year phase-in period for South Carolina as it entered the MTC Audit Program. In FY 2011 the audit fee level of South Carolina was set at 35% of the fully phased-in amount. In FY 2012 the audit fee for South Carolina was set at 75% of fully phased-in audit fee level. For FY 2013 the audit fee for South Carolina will be set at the fully phase-in audit fee level. This increases the total audit fees for FY 2013 by \$48,825 over the FY 2012 level.

III. The FY 2013 Budget – Expenditures Recap

In general, the requested expenditure amounts in the attached budget schedules reflect a continuation of current activities.

The most important factors affecting the expenditures budget are as follows:

1. An estimated 10.0% health insurance premium increase. [The CareFirst health insurance plan year begins September 1]. This 10% increase is anticipated after a 12.0% *decrease* the MTC experienced this year. This resets the expected 09/01/2012 CareFirst premium to approximately the 09/01/2010 level.
2. A proposed 2.5% overall salary adjustment. [This requested percentage increase is the same as that which was requested and approved for FY 2012].
3. It is proposed that the Audit Program will add one audit position for FY 2013 fiscal year on July 1, 2012.

4. It is proposed that the Legal Department (within General Operations) will add one attorney position for FY 2013 fiscal year on July 1, 2012.
5. The proposed budget for FY 2013 (and the projected budgets for FY 2014 and FY 2015) are based on receiving one month's free rent (approximately \$25,000) from the D.C. office landlord (State Services Organization) in *each* of these three fiscal years under the terms of a new lease.
6. Funding for the Policy Department intern and Legal Department intern positions has been trimmed to help provide needed funding in other areas in the General Operations Program.

Staffing Levels as budgeted for FY 2013 are as follows:

	<u>FTEs</u>
General Operations (Executive, Legal, Training Management, and Policy, Research, & Communications)	8.75
Audit Program	25.95
Training Programs	1.08
Nexus Program	5.61
Administration (Information Technology, and General Administration)	<u>7.13</u>
TOTAL	48.52

Staff time is allocated to and charged to the Training Program as staff performs duties associated with the various schools (Nexus schools, Statistical Sampling schools, *etc.*)

The Proposed \$292,538 Surplus for All Programs for FY 2013

The following factors largely contribute to presenting a budget with no change/increase in fees **and** with a proposed surplus of approximately \$292,538.

Description	Amount
South Carolina becoming fully / 100% phased into the Audit Program	\$48,825
Health Care (CareFirst) insurance premiums for the plan year beginning 09/01/2012 reset at approximately the same level as the plan year beginning 09/01/2010	\$150,000
One month free rent for MTC D.C. Office under the terms of the new lease for the D.C. office	\$25,000

The above factors are also largely responsible for the deferral of any projected fee increases until FY 2015 (for membership and audit program fees) and until FY 2016 (for Nexus Program fees) as noted below.

IV. The FY 2014, FY 2015, and FY 2016 Budget Projections

Revenue Increases

The percentage fee increases projected for fiscal years *beyond* the FY 2013 budget year are:

Description	FY 2014	FY 2015	FY 2016
Membership Assessments	0.00%	3.00%	3.00%
Audit Reimbursements	0.00%	2.50%	3.50%
Nexus Program Fees	0.00%	0.00%	3.00%

Expenditure Increases

The percentage increases used for each annual expenditure increase shown *beyond* the FY 2013 budget year are:

Description	FY 2014	FY 2015	FY 2016
Salaries and Retirement	2.50%	2.50%	2.50%
Employee Insurance	10.00%	10.00%	10.00%
Other Operating Expenses	3.00%	3.00%	3.00%

Note that a substantial portion of “Employee Insurance” is group health insurance for which continuing large annual rate increases are anticipated.

Attachment

SUMMARY OF MEMBERSHIP & PROGRAM FEES

General Membership Assessment (Compact & Sovereignty Members)

The general membership assessment (GMA) finances the uniformity, research, interaction on federal legislation, legal support, and litigation activities of the Commission as well as the annual conference.

The total membership assessment is set to cover the above activities and departments. Then the total membership assessment is distributed to the states according to a formula in the Multistate Tax Compact whereby 10 percent of the fees are divided on an equal basis, and 90 percent on the basis of relative shares of certain state and local revenues (as specified in Art. VI, Sec. 4(b) of the Compact). The state and local revenues are determined by a survey of the states.

Joint Audit Program Fees

The audit reimbursements support the audit services provided to states through the Joint Audit Program.

Overall audit fees are set on a reimbursement basis to cover the costs of operating of the program. They are distributed among the states by a schedule approved by the Executive Committee. The distribution of the fees among participating states is based on a long-range schedule of fee changes adopted in May 1991.

States participating in both income and sales tax audits pay a base fee amount that is equal for each state and is based on a cost reimbursement method. States participating in only income or sales tax audits pay an amount equal to 60 percent of the base fee amount for participating in both types of audits. States that are not compact or sovereignty members also pay an additional 20 percent general operations support fee.

National Nexus Program Fees

Nexus fees support the compliance activities of the National Nexus Program.

Total nexus fees are set to cover the costs of operating the program. The nexus fees are apportioned among participating states according to a formula whereby 60 percent of the costs are divided on an equal basis, and 40 percent on the basis of relative shares of state tax revenues of participating states (obtained from the Bureau of the Census). States participating in only the income or sales tax aspects of the program pay 60 percent of the equal share, but otherwise pay the 40 percent component just as those participating in both.

Nexus fees are also capped such that no state pays more than five percent of the total program fees. States that are not compact or sovereignty members also pay an additional 20 percent general operations support fee.

Training Program Fees

These are set on a full cost recovery basis in accordance with the direction of the Executive Committee.